

# ***STATE OF LOUISIANA LEGISLATIVE AUDITOR***

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**Delta Economic Energy District, Inc.  
Lake Providence, Louisiana**

**July 26, 1995**



***Financial and Compliance Audit Division***

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***Daniel G. Kyle, Ph.D., CPA, CFE  
Legislative Auditor***

## **LEGISLATIVE AUDIT ADVISORY COUNCIL**

### **MEMBERS**

**Senator Randy L. Ewing, Chairman**  
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### **LEGISLATIVE AUDITOR**

**Daniel G. Kyle, Ph.D., CPA, CFE**

### **DIRECTOR OF FINANCIAL AND COMPLIANCE AUDIT**

**Albert J. Robinson, Jr., CPA**

**DELTA ECONOMIC ENERGY DISTRICT, INC.**  
**Lake Providence, Louisiana**

**Financial Statements and  
Independent Auditor's Reports  
As of and for the Year Ended December 31, 1994**

Under the provisions of state law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by state law. A copy of this report has been made available for public inspection at the Baton Rouge office of the Legislative Auditor and at the office of the parish clerk of court.

**July 26, 1995**

**DELTA ECONOMIC ENERGY DISTRICT, INC.**  
Lake Providence, Louisiana

Financial Statements and  
Independent Auditor's Reports  
As of and for the Year Ended December 31, 1994

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DANIEL G. KYLE, PH.D., CPA, CFE  
LEGISLATIVE AUDITOR

OFFICE OF  
**LEGISLATIVE AUDITOR**  
STATE OF LOUISIANA  
BATON ROUGE, LOUISIANA 70804-9397

1600 NORTH THIRD STREET  
P.O. BOX 94397  
TEL (504) 339-3800  
FAX (504) 339-3870

July 11, 1995

Independent Auditor's Report  
on the Financial Statements

**DELTA ECONOMIC ENERGY DISTRICT, INC.**  
Lake Providence, Louisiana

We have audited the accompanying balance sheet of Delta Economic Energy District, Inc., (a nonprofit organization) as of December 31, 1994, and the related statements of support, revenue, functional expenses, and changes in fund balance and cash flows for the year then ended. These financial statements are the responsibility of Delta Economic Energy District, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As explained in Exhibit A, the district has not maintained customary accounting records and supporting documents relating to certain disbursements of the district. Accordingly, it was not practicable for us to extend our audit of such disbursements beyond the amounts recorded.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had the disbursements referred to in the preceding paragraph been susceptible to satisfactory audit tests, the financial statements referred to above present fairly, in all material respects, the financial position of the Delta Economic Energy District, Inc., as

**LEGISLATIVE AUDITOR**

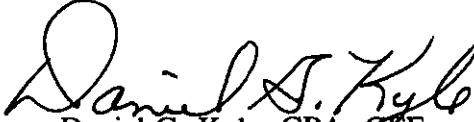
**DELTA ECONOMIC ENERGY DISTRICT, INC.**

Lake Providence, Louisiana

Audit Report, December 31, 1994

of December 31, 1994, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

Respectfully submitted,

  
Daniel G. Kyle, CPA, CFE  
Legislative Auditor

LJD:AJR:dl

[DEED]

**DELTA ECONOMIC ENERGY DISTRICT, INC.**  
**Lake Providence, Louisiana**  
**CURRENT FUNDS - RESTRICTED**

**Balance Sheet, December 31, 1994**

**ASSETS**

Current assets:

Cash	\$2,229
Accounts receivable	<u>2,500</u>

TOTAL ASSETS	<u><u>\$4,729</u></u>
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**LIABILITIES AND FUND BALANCE**

Current liabilities - accounts payable	\$28,130
Fund balance (deficit)	<u>(23,401)</u>

TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$4,729</u></u>
------------------------------------	-----------------------

The accompanying notes are an integral part of this statement.

**Statement B****DELTA ECONOMIC ENERGY DISTRICT, INC.  
Lake Providence, Louisiana  
CURRENT FUNDS - RESTRICTED****Statement of Support, Revenue, Functional  
Expenses, and Changes in Fund Balance  
For the Year Ended December 31, 1994****SUPPORT AND REVENUE**

State grant	\$300,000
Private grants	39,500
Contribution from:	
Corporation	5,000
Individual	1,100
Organizations	138,532
Total support and revenue	<u>484,132</u>

**FUNCTIONAL EXPENSES**

Program:	
Professional and contract services	351,742
Utilities	14,410
Printing	8,803
Advertising	24,802
Postage	4,117
Supplies	8,903
Conferences/committee meetings	26,117
Travel	49,841
Repairs and maintenance	318
Building and equipment rental	18,480
Total expenses	<u>507,533</u>

**DEFICIENCY OF SUPPORT AND  
REVENUE OVER EXPENSES**

(23,401)

**FUND BALANCE AT BEGINNING OF YEAR**

NONE

**FUND BALANCE (Deficit) AT END OF YEAR**

(\$23,401)

The accompanying notes are an integral part of this statement.



**DELTA ECONOMIC ENERGY DISTRICT, INC.**  
**Lake Providence, Louisiana**  
**CURRENT FUNDS - RESTRICTED**

**Statement of Cash Flows**  
**For the Year Ended December 31, 1994**

**CASH FLOWS FROM PROGRAM ACTIVITIES**

Cash received from:

State grant	\$300,000
Private grants	37,000
Contribution from corporation	5,000
Total	<u>342,000</u>

Cash paid for:

Professional and contract services	219,903
Utilities	8,592
Printing	6,953
Advertising	12,552
Postage	2,879
Supplies	5,987
Conferences/committee meetings	18,600
Travel	50,990
Repairs and maintenance	318
Building and equipment rental	12,997
Total	<u>339,771</u>

**NET INCREASE IN CASH** 2,229

**CASH AT BEGINNING OF YEAR** NONE

**CASH AT END OF YEAR** \$2,229

**RECONCILIATION OF EXCESS SUPPORT AND REVENUES  
OVER EXPENSES TO NET CASH PROVIDED BY  
PROGRAM ACTIVITIES**

Deficiency of support and revenue over expenses (\$23,401)

**CHANGE IN ASSETS AND LIABILITIES**

(Increase) in assets - accounts receivable	(2,500)
Increase in liabilities - accounts payable	28,130
Total changes	<u>25,630</u>

**NET CASH PROVIDED BY PROGRAM ACTIVITIES** \$2,229

The accompanying notes are an integral part of this statement.

**DELTA ECONOMIC ENERGY DISTRICT, INC.**  
Lake Providence, Louisiana

Notes to the Financial Statements  
As of and for the Year Ended December 31, 1994

**INTRODUCTION**

Delta Economic Energy District, Inc., (DEED) is a nonprofit organization. The district was incorporated in Louisiana in September 1993, to engage in certain objects and purposes, which include, but are not limited to, the following:

1. the formation of an Economic Coalition with Arkansas, Louisiana, and Mississippi Delta citizens to examine the economic, health, and education problems within these states;
2. the creation of a relationship within the Delta Region of the Tri-State area of Arkansas, Louisiana, and Mississippi ("Delta");
3. the provision of a mechanism for Delta residents to attack the economic depression prevalent in the targeted areas of the Tri-State Region;
4. the continuation of the pursuit of the goals established by the Arkansas-Louisiana-Mississippi Delta Pilot Economic Development Project as established in February 1993;
5. the promotion of economic stability for the Delta Region of Arkansas, Louisiana, and Mississippi;
6. the production of a Pilot for Economic Development worthy of replication by other parts of the United States;
7. the development and implementation of a comprehensive program for the Tri-State Delta Region to address the severe and inter-related economic, health, and education problems of the Delta;
8. the development and implementation of a coordinated Tri-State strategy to solve the problems which cross-cut all three states of the Tri-State Delta Region; and
9. the development of new innovative approaches through this multi-state partnership for solving the problems of the Delta which Arkansas, Louisiana, and Mississippi have not been able to solve acting independently.

**DELTA ECONOMIC ENERGY DISTRICT, INC.**

Lake Providence, Louisiana

Notes to the Financial Statements (Continued)

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. BASIS OF PRESENTATION**

The accompanying financial statements have been prepared on the accrual basis, in conformity with generally accepted accounting principles (GAAP).

**B. FUND ACCOUNTING**

The assets, liabilities, and fund balances of the district are reported in the restricted fund. Restricted funds represent amounts received under grants and contracts with varying funding sources. Restricted funds must be used in accordance with the contract with the funding source. Unexpended amounts at the end of a contract period must be returned to the appropriate funding source.

**C. DESCRIPTION OF PROGRAM**

DEED was nominated by Arkansas, Louisiana, and Mississippi and various units of local government as the applicant for parts of Chicot County, Arkansas; East Carroll Parish, Louisiana; and Washington County, Mississippi, to prepare and implement the area's strategic plan. The federal register on January 18, 1994, authorized the Secretary of the United States Department of Agriculture (USDA) to designate not more than three Rural Empowerment Zones based on the effectiveness of the strategic plan submitted by the applicant and nominated by a state or states and local governments. DEED obtained state and private funding to prepare the application and strategic plan. DEED submitted the application and strategic plan to the USDA on June 30, 1994. DEED did not receive one of the Rural Empowerment Zone designations when they were announced by federal officials on December 21, 1994. Also, DEED sponsored a series of anti-poverty activities such as conferences in Jackson, Mississippi; West Memphis, Arkansas; Baton Rouge, Louisiana; and Eudora, Arkansas; a rally at Greenville, Mississippi; and motivational and economic development classes in Lake Providence, Louisiana.

**D. DONATED MATERIALS**

Donated materials are reflected as contributions in the accompanying financial statements at their actual or estimated values.

**DELTA ECONOMIC ENERGY DISTRICT, INC.**

Lake Providence, Louisiana

Notes to the Financial Statements (Continued)

**E. INCOME TAXES**

DEED has applied for an exemption from income taxes under Section 501(c)(3) of the Internal Revenue Code. The district has not heard from its application to the Internal Revenue Service. No provisions for income taxes have been made in these financial statements.

**F. BUDGET PRACTICES**

The district submitted a budget to the Louisiana Department of Economic Development for the \$300,000 cooperative endeavor agreement. The district did not prepare a budget on any of the other monies it received.

**G. CASH**

Cash includes demand deposits.

**H. PROPERTY AND EQUIPMENT  
AND LONG-TERM DEBT**

The district has no property and equipment or long-term debt at December 31, 1994.

**I. COMPENSATED ABSENCES, VACATION  
AND SICK LEAVE, AND PENSION PLAN**

The district has no employees; therefore, it does not have a vacation and sick leave policy and does not contribute to a pension plan.

**2. CASH**

At December 31, 1994, the district has cash (book balances) totaling \$2,229, which is all in noninterest-bearing demand accounts.

These deposits are stated at cost, which approximates market. At December 31, 1994, the district has \$5,098 in deposits (collected balances) that are fully secured by federal deposit insurance.

## **DELTA ECONOMIC ENERGY DISTRICT, INC.**

Lake Providence, Louisiana

Notes to the Financial Statements (Continued)

### **3. ACCOUNTS RECEIVABLE**

The district recorded an accounts receivable from The Winthrop Rockefeller Foundation for \$2,500. The professional service agreement with The Winthrop Rockefeller Foundation was for services provided to portions of Chicot County, Arkansas, as they relate to the strategic plan. All services were provided before December 31, 1994. A deposit was made on January 3, 1995, for \$2,500.

### **4. ADVERTISING**

The district incurred advertising cost of \$24,802 during the year ended December 31, 1994. A memorandum of agreement existed between the district and the Arkansas Educational Television Network, Louisiana Public Broadcasting, and Mississippi Educational Network, which co-produced a 30 minute television program for prime time broadcast in all three states focusing on the needs of the Delta Region for \$24,000. Also, the district advertised conferences and meetings on radio and newspapers for \$802.

### **5. LEASE OBLIGATIONS**

The board does not have any capital leases. At December 31, 1994, the district is leasing office space in Lake Providence. This lease is month to month and can be cancelled at any time by the district.

### **6. LOUISIANA DEPARTMENT OF ECONOMIC DEVELOPMENT COOPERATIVE ENDEAVOR AGREEMENT WITH THE DELTA ECONOMIC ENERGY DISTRICT, INC.**

Act 15 of the 1994 Regular Session of the Louisiana Legislature appropriated \$300,000 of state general fund monies to DEED through the Louisiana Department of Economic Development's appropriation. The State of Louisiana through the Louisiana Department of Economic Development entered into a cooperative endeavor agreement with DEED. This agreement was effective July 1, 1994, and terminated on March 31, 1995. Funds were disbursed by the state to the district upon receipt of documents for expenses incurred. The agreement called for:

1. the reimbursement of expenses incurred before July 1, 1994, in the preparation for a \$40 million Rural Empowerment Zone application to the United States Department of Agriculture; and

**DELTA ECONOMIC ENERGY DISTRICT, INC.**

Lake Providence, Louisiana

Notes to the Financial Statements (Continued)

2. the reimbursement of operation expenses of the district for the first three quarters of the 1994/95 state fiscal year.

**7. NORTHEAST LOUISIANA COUNCIL ON  
BLACK ECONOMIC DEVELOPMENT**

As discussed in note 6, DEED received from the Louisiana Department of Economic Development a cooperative endeavor agreement for \$300,000. A portion of that agreement stated that DEED could submit reimbursement for expenses incurred before July 1, 1994, in the preparation of the Rural Empowerment Zone application. The DEED board on June 5, 1994, authorized the use of Northeast Louisiana Council on Black Economic Development documents to receive the first initial payments from the Louisiana Department of Economic Development. Documentation for expenses maintained by the Northeast Louisiana Council on Black Economic Development, amounting to \$135,532, were submitted to the Department of Economic Development for reimbursement for DEED. The amounts were recorded in the accompanying financial statements as contributions and expenses to DEED. These amounts were charged to the following DEED expense categories:

Professional and contract services	\$121,825
Utilities	4,567
Printing	1,849
Postage	828
Supplies	1,793
Conferences/committee meetings	2,500
Travel	870
Buildings and equipment rental	<u>1,300</u>
Total	<u><u>\$135,532</u></u>

**8. LITIGATION AND CLAIMS**

There is no litigation pending against the district at December 31, 1994.

**9. RELATED PARTY TRANSACTIONS**

Senator Charles D. Jones, Chief Executive Officer and Chairman of the Board, was paid \$34,000 for the period under audit. The \$34,000 included \$29,000 in state revenue and \$5,000 in private non-state corporate contributions. The \$29,000 was loaned back to the

**DELTA ECONOMIC ENERGY DISTRICT, INC.**  
Lake Providence, Louisiana  
Notes to the Financial Statements (Concluded)

district to cover operational cost. In addition, fees incurred for professional services provided by Senator Jones' family members are as follows:

<u>Name</u>	<u>Relationship</u>	<u>Services Provided</u>	<u>Amounts</u>
Carolyn Jones	Niece	Consultant	\$26,500
Charles Jones, Jr.	Son	Consultant	7,775
Dr. James Smith	Nephew	Teacher/Consultant	2,000
Shalonda Moss	Great-niece	Clerical	1,000
Otis D. Jones	Brother	Computer Consultant	1,000
Dorothy Lewis	Cousin	Project Coordinator	500
Hilda Marshall	Niece	Teacher	300

**10. SUBSEQUENT EVENTS**

Senator Charles D. Jones, Chief Executive Officer and Chairman of the Board, loaned the district \$29,000, which represented a portion of his salary paid in 1994. The amount was deposited by DEED on January 3, 1995, and acknowledged by board resolution on February 9, 1995. These amounts are not reflected in the accompanying financial statements.

In addition, on February 9, 1995, the DEED board of directors passed a resolution authorizing the chairman to borrow up to \$30,000 to keep the DEED office staff operating for the next four months or until they received additional funding. The loan will be made at the lowest interest rate possible.

**OTHER REPORTS REQUIRED BY**  
***GOVERNMENT AUDITING STANDARDS***

The following pages contain reports on internal control structure and compliance with laws and regulations required by *Government Auditing Standards*, issued by the Comptroller General of the United States. The report on internal control structure is based solely on the audit of the financial statements and includes, where appropriate, any reportable conditions and/or material weaknesses. The report on compliance with laws and regulations is, likewise, based solely on the audit of the presented financial statements and presents, where applicable, compliance matters that would be material to the presented financial statements.





DANIEL G. KYLE, PH.D., CPA, CFE  
LEGISLATIVE AUDITOR

OFFICE OF  
**LEGISLATIVE AUDITOR**  
STATE OF LOUISIANA  
BATON ROUGE, LOUISIANA 70804-9397

1600 NORTH THIRD STREET  
P.O. BOX 94397  
TEL (504) 339-3800  
FAX (504) 339-3870

July 11, 1995

**Independent Auditor's Report on the Internal Control Structure**  
**Based Solely on an Audit of the Financial Statements**

**DELTA ECONOMIC ENERGY DISTRICT, INC.**  
Lake Providence, Louisiana

We have audited the financial statements of the Delta Economic Energy District, Inc., (a nonprofit organization) as of and for the year ended December 31, 1994, and have issued our report thereon dated July 11, 1995. In our report, our opinion was qualified because of inadequate expense records. Except as discussed previously, we conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit of the financial statements of the Delta Economic Energy District, Inc., as of and for the year ended December 31, 1994, we considered its internal control structure to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

Management of Delta Economic Energy District, Inc., is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of *internal control structure policies and procedures*. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that effectiveness of the design and operation of policies and procedures may deteriorate.

**EXHIBIT A**

**LEGISLATIVE AUDITOR**

**DELTA ECONOMIC ENERGY DISTRICT, INC.**

Lake Providence, Louisiana

Internal Control Report

July 11, 1995

Page 2

For the purpose of this report, we have classified the significant internal control structure policies and procedures into the following categories:

Cash

Revenues/receipts/contributions/receivables

Expenses/disbursements/accounts payable

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk. Because of the small size of the district, we did not evaluate the effectiveness of the internal control structure categories. Accordingly, we assessed control risk at a very high level (maximum) and expanded our substantive tests.

In accordance with the standards mentioned previously and provisions of state law, we are required to communicate to management, and include in our report, any reportable conditions and/or material weaknesses. Reportable conditions involve matters that come to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the district's ability to record, process, summarize, and report financial data in a manner that is consistent with the assertions of management in the financial statements. A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. In our consideration of the internal control structure, we noted the matters contained in the following paragraphs and the matter contained in Exhibit B relating to Internal Revenue Service forms not being filed that we consider to be reportable conditions. We noted that, as a material weakness, the size of the district's operations and its limited staff preclude an adequate segregation of duties and other features of an adequate system of internal control, although to employ such controls may not be cost beneficial. In addition, we noted the following reportable conditions that we believe to be material weaknesses.

**EXHIBIT A**

**DELTA ECONOMIC ENERGY DISTRICT, INC.**

Lake Providence, Louisiana

Internal Control Report

July 11, 1995

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**Inadequate Records**

The Delta Economic Energy District, Inc., (DEED) did not maintain adequate records during the year ended December 31, 1994. Proper internal controls require that competent and complete financial records be maintained that provide evidence that DEED officials fulfill their stewardship responsibilities and allow preparation of accurate financial statements in accordance with generally accepted accounting principles. DEED has not adopted a formal internal control system that would include stated accounting procedures, accounting system organization, and necessary accounting records. As a result, during our examination, we noted the following deficiencies in DEED's records:

1. DEED did not maintain journals of original entry that recorded transactions for financial reporting purposes in accordance with generally accepted accounting principles. We recommend that DEED establish an accounting system to record transactions for financial reporting purposes. In a written response dated July 15, 1995, Senator Charles D. Jones, Chairman, DEED, stated, "Since the beginning of this audit management has hired a CPA to establish an accurate accounting system to record transactions for financial reporting purposes."
2. DEED did not provide sufficient documentation for professional services fees. We noted that professional services fees provided to individuals/companies were evidenced by the following:
  - a. Disbursements of \$221,160 were evidenced by contracts only. We could not identify hours worked since no time records were required, nor could DEED provide evidence for the work performed.
  - b. Disbursements of \$6,637 were evidenced by time sheets only. The time sheets were not signed by the employee or supervisor and were not supported by written contracts.
  - c. Disbursements of \$123,945 were evidenced by invoices or letters of explanation only. We could not locate contracts signed by both parties to the contracts.

**LEGISLATIVE AUDITOR**

**DELTA ECONOMIC ENERGY DISTRICT, INC.**

Lake Providence, Louisiana

Internal Control Report

July 11, 1995

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We recommend that DEED maintain written contracts on all professional services that include documentation on services rendered and hours worked. In written responses received on June 2, 1995, and July 17, 1995, Senator Charles D. Jones, Chairman, DEED, stated,

- 2a. "Consultants were required to perform certain duties and tasks, Contracts were performance contracts. Each consultant had to report to the Chairman or Executive Director each day. The Empowerment Zone application, books pamphlets, and approximately 85 meetings, conference and workshops in the states of Louisiana, Arkansas, and Mississippi are evidence that the work was performed. However, the Corporation is requiring a detailed contract to be signed by all consultants. It is also a requirement of each Consultant to be responsible for turning in to the corporation all time sheets, work performance documentation, and approved documentation for all travel."
- 2b. "These were one time employees for a particular job during a conference or workshop."
- 2c. "Contracts were one time engagements. Because of the time constraints and dead line of June 30, 1994 to file the Empowerment Zone application this exigent circumstance dictated that contracts be expedited in a timely manner. Initial documentation was produced, explained or subsequently ratified and approved by the Board of Directors."
- 3. DEED did not provide sufficient documentation for meals provided during business meetings and conferences. We noted \$10,198 in meals were reimbursed that did not include the name and title/position of the individual(s) subject to the meal and the reason the meal was provided. We recommend that DEED establish policies that require all meals provided during business meetings and conferences be approved by the chief executive officer or his designate, be supported by original invoices, provide documentation of name and position/title of individual(s) receiving the meal, and give the reason the meals were provided. In written responses received on June 2, 1995, and July 17,

## LEGISLATIVE AUDITOR

### DELTA ECONOMIC ENERGY DISTRICT, INC.

Lake Providence, Louisiana

Internal Control Report

July 11, 1995

Page 5

1995, Senator Charles D. Jones, Chairman, DEED, stated, "Meals were provided during conferences, workshops and individuals were required to pre-register or sign in at the time of the conference. All conferences and meals were approved by the Chairman of the Board of Directors. The Corporation now has proper documentation to document all meetings and meals. Also all business meetings and meals have to be pre-approved by management."

4. DEED did not provide sufficient documentation for routine travel. Management required individuals to submit actual expenses for their travel. We noted \$9,635 in travel reimbursements in which individuals did not submit documentation that provided purpose of travel, departure and arrival times, location and points of travel, and miles traveled. We recommend that DEED require all individuals submit documentation that provides for the purpose of travel, departure and arrival times, location and points of travel, and miles traveled. This documentation should be signed by the individual claiming reimbursement for travel expenses and approved by the individual's immediate supervisor. In written responses received on June 2, 1995, and July 17, 1995, Senator Charles D. Jones, Chairman, DEED, stated, "The Chairman or the Executive Director approved all travel, which was ratified by the Board of Directors. The Consultants will be required to submit better documentation of their travel in the future. The corporation requires that proper documentation be signed and pre-approved by management before traveling. Also the travel must be directly related to the success of the project assigned. The corporation requires that three or more persons must be traveling before aircraft charters are approved."
5. DEED did not provide sufficient documentation for commercial air travel and for chartered aircraft. We noted \$2,355 in commercial air travel was reimbursed in which the reason for the commercial air travel was not documented. We also noted \$12,838 in aircraft charters in which the reason for the charter and all persons on the charter were not documented. We recommend that DEED require that commercial air travel and aircraft charters be approved by the chief executive officer or his designate, be supported by invoices, document the reason for the air travel, and document the name and position/title of the individual using

## EXHIBIT A

**DELTA ECONOMIC ENERGY DISTRICT, INC.**

Lake Providence, Louisiana

Internal Control Report

July 11, 1995

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the commercial air ticket or the individual(s) aboard the charter. In a written response received on June 2, 1995, Senator Charles D. Jones, Chairman, DEED, stated, "All commercial travel and chartered aircraft were approved by the chairman and ratified by the board. Air travel was necessary because of the amount of land mass (the three states of Louisiana, Arkansas, Mississippi and their parishes and counties), the number of persons traveling to other states, the frequency of meetings, and the time constraints involved. We obtained either original or copies of air travel tickets. Better notation on invoices will be required in the future."

6. DEED did not provide sufficient documentation for telephone expenses. A majority of the district's telephone expenses are for long-distance charges. We noted \$12,282 in telephone expenses that did not reflect that such billings were reviewed and approved for accuracy before payment. We recommend this documentation be adequately reviewed. In a written response received on June 2, 1995, Senator Charles D. Jones, Chairman, DEED, stated, "It was required of DEED to make long distance calls because it was a three-state Empowerment Zone application we were submitting. Furthermore, calls had to be made to other states to obtain information. However, in the future DEED will better document and review all phone bills."
7. DEED did not support all disbursements with original documentation. We noted the following during our examination of disbursements:
  - a. No documentation could be located for \$12,219 of disbursements. Disbursements should be supported by original invoices.
  - b. Disbursements of \$13,467 were supported by a copy of original invoices. Paying from copies of original invoices increases the chances for making duplicate payments.
  - c. Disbursements of \$6,070 were paid from statements. Paying from statements does not provide the level of detail necessary to evaluate disbursements.

## LEGISLATIVE AUDITOR

### DELTA ECONOMIC ENERGY DISTRICT, INC.

Lake Providence, Louisiana

Internal Control Report

July 11, 1995

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- c. Disbursements of \$6,070 were paid from statements. Paying from statements does not provide the level of detail necessary to evaluate disbursements.

We recommend that DEED pay disbursements only upon receipt of original invoices and have an appropriate official indicate that the goods or services were received or performed. In a written response received on June 2, 1995, Senator Charles D. Jones, Chairman, DEED, stated, "We were unable, after diligent search, to produce some original invoices which we believe may have been lost while traveling and during submission to the Department of Economic Development. We obtained copies of all invoices available."

8. DEED did not have an adequate filing system. We noted 11 individual reimbursement checks amounting to \$39,109 supported by receipts amounting to \$40,935. A disbursement should be supported by original documentation that equals the check written. We recommend that DEED keep all receipts intact that support the disbursement check. In a written response received on June 2, 1995, Senator Charles D. Jones, Chairman, DEED, stated, "DEED has since hired a Certified Public Accountant to keep records of all transactions. DEED has also established a professional accounting system."

### **Budgeting**

DEED did not prepare and adopt a budget for all its revenues and expenses. Proper internal controls require that DEED prepare and adopt an annual budget to present a complete financial plan for the ensuing year. Our audit revealed that DEED prepared only a budget for \$300,000 received from its cooperative agreement with the Department of Economic Development. DEED was unable to provide a framework from which all its revenues could be monitored and all expenses controlled.

We recommend that DEED prepare and adopt a budget for all its funds. In a written response dated July 15, 1995, Senator Charles D. Jones, Chairman, DEED, stated, "Other budgets were prepared and dedicated for specific purposes as authorized by the entity from which the funds were requested. DEED will prepare an annual budget

**LEGISLATIVE AUDITOR**

**DELTA ECONOMIC ENERGY DISTRICT, INC.**

Lake Providence, Louisiana

Internal Control Report

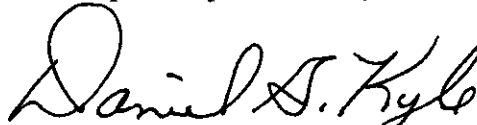
July 11, 1995

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which will include all revenues and expenses of the Corporation. This budget will be amended as necessary to reflect any changes."

This report is intended for the information of the board of directors, its management, and other appropriate officials. By provisions of state law, this report is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,

A handwritten signature in black ink, reading "Daniel G. Kyle". The signature is fluid and cursive, with the first name "Daniel" being more prominent than the last name "Kyle".

Daniel G. Kyle, CPA, CFE  
Legislative Auditor

LJD:AJR:dl

[DEED]





DANIEL G. KYLE, PH.D., CPA, CFE  
LEGISLATIVE AUDITOR

OFFICE OF  
**LEGISLATIVE AUDITOR**  
STATE OF LOUISIANA  
BATON ROUGE, LOUISIANA 70804-9397

1600 NORTH THIRD STREET  
P.O. BOX 94397  
TEL (504) 339-3800  
FAX (504) 339-3870

July 11, 1995

Independent Auditor's Report on Compliance With Laws, Regulations,  
Contracts, and Grants Based Solely on an Audit of the Financial Statements

**DELTA ECONOMIC ENERGY DISTRICT, INC.**  
Lake Providence, Louisiana

We have audited the financial statements of the Delta Economic Energy District, Inc., (DEED) (a nonprofit organization) as of and for the year ended December 31, 1994, and have issued our report thereon dated July 11, 1995. In our report, our opinion was qualified because of inadequate expense records. Except as described previously, we conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to DEED is the responsibility of the district's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the district's compliance with certain provisions of laws, regulations, contracts, and grants. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests indicate that, with respect to the items tested, DEED complied, in all material respects, with the provisions referred to in the preceding paragraph. With respect to the items not tested, nothing came to our attention that caused us to believe that the district had not complied, in all material respects, with those provisions. Although not material to the financial statements, the results of our tests indicate the following matter, which represents a violation of laws and regulations.

**Internal Revenue Service Forms**

DEED did not file or correctly file Form 1099-MISC with the Internal Revenue Service (IRS) on those persons not treated as employees. IRS Form 1099-MISC, Miscellaneous Income, is required to be filed for each person paid at least \$600 or more during the year. DEED did not file Form 1099-MISC for 36 persons who

**EXHIBIT B**

## **LEGISLATIVE AUDITOR**

### **DELTA ECONOMIC ENERGY DISTRICT, INC.**

Lake Providence, Louisiana

Compliance Report

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received payments totaling \$128,712. Also, DEED filed Form 1099-MISC for 11 persons whose payments were understated by \$52,559. DEED did not take into account some payments from its Baton Rouge bank account, did not take into account any of the payments from its Monroe bank account, and did not take into account those payments made by the Northeast Louisiana Council on Black Economic Development, Inc., which were submitted for reimbursement on the Louisiana Department of Economic Development agreement with DEED.

We recommend that DEED file a corrected IRS Form 1099-MISC and develop procedures to properly file the form with correct information in the future. In written responses received on June 2, 1995, and July 17, 1995, Senator Charles D. Jones, Chairman, DEED, stated, "Because some individuals were paid from another corporation, the amount was understated. In those cases the 1099 amounts were prepared from two separate corporations and the individuals received two separate 1099's. In essence, the amount identified in the audit reports were reported on two corporate books to arrive at the total report. DEED has already filed corrected 1099's."

We considered this instance of noncompliance in forming our opinion on whether DEED's financial statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles, and this report does not affect our report dated July 11, 1995, on those financial statements.

The results of our test of compliance also indicated the following areas, which could result in violations of laws and regulations:

#### **Louisiana Attorney General Opinion**

Act 15 of the 1994 Regular Session of the Louisiana Legislature, Section 8, second paragraph states, "Each program receiving an appropriation in this Act shall be subject to all rules and regulations of the agency in which it is appropriated . . ." DEED received a \$300,000 appropriation through the Louisiana Department of Economic Development's appropriation. The Louisiana Legislative Auditor requested that the Louisiana Attorney General issue an opinion to determine if DEED was required to follow the rules and regulations of the Louisiana Department of Economic Development. The Louisiana Attorney General has not issued an opinion on this

## **EXHIBIT B**

LEGISLATIVE AUDITOR

**DELTA ECONOMIC ENERGY DISTRICT, INC.**

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matter. The audit was conducted as if DEED was not required to comply with the provision of Act 15.

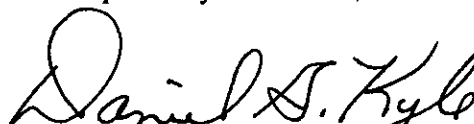
**Independent Contractor or Employee**

DEED treats business arrangements with all individuals as independent contractors. Internal Revenue Service Publication 937, Employment Taxes, has identified 20 factors that are used as guidelines to determine whether sufficient control is present to establish an employee-employer relationship. We were unable to determine with certainty from the preceding guidelines whether individuals should have been classified as independent contractors or employees. Failure to properly classify an individual as an employee could make DEED liable for employment taxes for that worker. Furthermore, if income, social security, and Medicare taxes were not withheld from the worker's wages, DEED may be held liable for a penalty equal to the taxes that should have been paid.

We recommend that DEED file Internal Revenue Service Form SS-8, Determination of Employee Work Status for Purposes of Federal Employment Taxes and Income Tax Withholdings, on each individual to determine the employment relationship with DEED. In a written response dated July 15, 1995, Senator Charles D. Jones, Chairman, DEED, stated, "DEED's Certified Public Accountant has obtained a copy of the Internal Revenue Service Publication 937, and has re-identified all individuals employment relationship with DEED."

This report is intended for the information of the board of directors, its management, and appropriate officials. By provisions of state law, this report is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,



Daniel G. Kyle, CPA, CFE  
Legislative Auditor

LJD:AJR:dl

(DEED)